



Ministry
of
Revenue

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Retail Sales Tax Branch

Information Bulletin

Retail Sales Tax Act

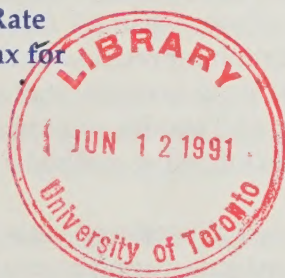
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This bulletin summarizes changes in the *Retail Sales Tax Act*, as well as information on other items of interest to vendors. These changes are effective from January 1, 1991 unless specifically noted.

HIGHLIGHTS

- No Retail Sales Tax on the Federal Goods and Services Tax
- Vendor Compensation — Limit Increased
- Production Machinery
- Tire Tax on Rentals/Leases
- Interest
- Liability of Directors and Officers
- Audit Period Extended
- Refunds by Vendors
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- Printing for Own Use
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NO RETAIL SALES TAX ON THE FEDERAL GOODS AND SERVICES TAX

As announced in Bulletin 1-90, retail sales tax (RST) is not applied on top of the federal goods and services tax (GST). All other charges normally included in the selling price for provincial sales tax purposes remain unchanged.

If vendors have incorrectly charged retail sales tax on the GST portion of their bill, they are authorized to repay to their customers this portion of the RST charged and can deduct this amount from the tax due on line 2 of their sales tax return.

VENDOR COMPENSATION — LIMIT INCREASED

In order to offset a portion of the additional collection costs that are being incurred by Ontario vendors as a result of the GST, the Ontario government has increased the amount of compensation provided to vendors for the collection and remittance of retail sales tax.

Effective January 1, 1991, for returns due in and after February 1991, if the amount shown on line 2, "Tax collectable on Sales", is:

- \$20.00 or less — deduct the whole amount
- \$20.01 to \$400 — deduct \$20.00
- \$400 or more — deduct 5% of the amount shown.

The following maximum compensation limits apply to each legal entity:

- for the 12-month period ending March 31, 1991
- \$1,100; and,
- any subsequent 12-month period ending March 31
- \$1,500.

Vendors are not entitled to compensation if:

- the return is received **after** the return due date;
- the return is not accompanied by payment in full; or,
- the cheque is not negotiable.

PRODUCTION MACHINERY

For retail sales tax purposes, a manufacturer is a person who produces goods for sale or for own use and meets either of the following conditions:

- the goods sold to others is more than \$5,000 per fiscal year;
- the goods for own use is more than \$50,000 per fiscal year.

Prior to January 1, 1991, the exemption for production machinery and equipment purchased for the use of a manufacturer included equipment, machinery and consumables described in Part XIII of Schedule III to the *Excise Tax Act* (Canada). Since that part of the federal legislation has been repealed, the regulations to the Ontario *Retail Sales Tax Act* will be amended to incorporate the definitions of production machinery and equipment that were previously described in Part XIII of Schedule III of the federal Act.

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TIRE TAX ON RENTALS/LEASES

Changes to the retail sales tax legislation introduced the \$.15 per day tire tax on rentals. Vendors have the choice of using one of the following methods to account for the tire tax on vehicles or equipment rented with pneumatic tires.

For vehicles or equipment rented for a period of **less than 30 days**, vendors may:

- for each rental entered into on or after January 28, 1991, charge \$.15 per day tire tax plus applicable RST, (regardless of the number of new tires on the vehicle or equipment);
- for each rental entered into on or after January 28, 1991, include the \$.15 per day tire tax (regardless of the number of new tires on the vehicle or equipment) in the daily rental charge; or,
- pay or account for the \$5.00 tire tax on **each** new tire purchased, whether as part of a new vehicle or equipment purchased for rental purposes, or as a replacement.

For vehicles and equipment rented/leased for a period of **30 days or more, and less than one year**, vendors may:

- charge the \$5.00 tire tax plus applicable RST for each new pneumatic tire on the vehicle or equipment being rented/leased; or,
- pay or account for the \$5.00 tire tax on **each** new pneumatic tire purchased, whether as part of a new vehicle or equipment purchased for rental/lease purposes, or as a replacement.

In all of the above cases, if vendors use tire tax-included pricing, it must be indicated to customers. Vendors must clearly show the 8% RST on customers' bills. After choosing one of these approved methods, vendors must apply it consistently.

INTEREST

The method of computing interest under the *Retail Sales Tax Act* has been changed from simple interest to daily compound interest.

LIABILITY OF DIRECTORS AND OFFICERS

If a corporation fails to collect tax or remit tax charged on sales, and the directors of the corporation have not exercised reasonable diligence to prevent that failure, the directors of the corporation could be held jointly and severally liable for amounts owing and unpaid by the corporation.

AUDIT PERIOD EXTENDED

The retail sales tax audit period has been increased from three to four years. This time limit applies to situations where the date the tax became payable or the date the tax should have been collected, was on or after January 1, 1991.

REFUNDS BY VENDORS

Vendors were authorized to make tax refunds to taxpayers within three years from the date of the original sale and could deduct the amount from the tax due on their current sales tax return. Effective January 1, 1991, the time period has been extended from three to four years for purchases made on or after that date. A vendor can make a tax refund in whole or in part as the case requires, in the following situations:

- if there is a clerical or mathematical error in the calculation of tax;
- if there is an error in the application of tax to unconditionally tax-free goods;
- if a buyer has provided a valid purchase exemption certificate to the vendor after being charged tax on purchases for resale; and,
- if the buyer is returning the purchases to the vendor for full or partial credit.

REFUNDS BY RETAIL SALES TAX BRANCH

In most cases, the *Retail Sales Tax Act* imposed a three-year limit on tax refunds. Effective January 1, 1991, for purchases made on or after that date, the time limit has been extended to four years.

Applications must be received within four years from the date the tax was paid.

PRINTING FOR OWN USE

Production of printed matter for own use at a produced cost of more than \$50,000 a year, is a manufacturing operation for retail sales tax purposes. In this case, the person is required to remit retail sales tax at 8% of the manufactured cost of all taxable printed matter. Tax is determined by either of the following methods:

- actual produced costs including materials, direct labour, manufacturing overhead; or,
- special formulas, where the produced costs cannot be readily determined.

With the GST in place, the formulas currently approved for use can still be applied excluding the federal sales tax. The GST should not be included in the calculation for provincial sales tax purposes.

COMBINED RST AND GST RATE

The Ministry of Revenue allows vendors to use a combined rate of tax to calculate both the RST and the federal GST, provided **all** of the following conditions are met:

- all sales are taxable both provincially and federally;
- a sign is posted showing both the provincial and federal tax rates;
- if vendors are using a combined rate of 15% (8% RST and 7% GST), the tax remitted at the end of a filing period is calculated by using 8/15 (for RST in the provincial return) and 7/15 (for GST in the federal return); and,
- if vendors of alcoholic beverages and admissions are

using a combined rate of 17% (10% RST and 7% GST), the tax remitted at the end of a filing period is calculated by using 10/17 (for RST in the provincial return) and 7/17 (for GST in the federal return).

CALCULATING RETAIL SALES TAX FOR GST-INCLUDED PRICING

The federal government allows vendors the option of using GST-included pricing when billing customers. Vendors who choose this option may use a factor to calculate the amount of RST to collect from customers where the sale is taxable both provincially and federally. The use of this factor is the same as multiplying the GST-excluded selling price by the applicable provincial tax rate. For example, to calculate RST on goods taxable at a provincial rate of 8%, vendors would multiply the GST-included price by 7.477%. To calculate RST on purchases taxable at a provincial rate of 10%, for example alcoholic beverages, vendors would multiply the GST-included price by 9.346%.

Vendors who use this alternative must show the amount of provincial tax separately on customers' invoices, **but not the equivalent factor used.**

It should be noted that the federal GST Quick Method and Streamlined Accounting methods cannot be applied for provincial retail sales tax purposes.

PREPARED FOOD PRODUCTS

Retail sales tax does not apply to prepared food products sold by an eating establishment as part of one transaction for a total charge of \$4.00 or less. If the total charge is more than \$4.00, tax applies at the rate of 8% to the full amount of the charge.

Since the federal government allows vendors the option of using GST-included pricing when billing customers, the RST limit will increase from \$4.00 to \$4.28 (\$4.00 + 7% GST) **for GST-included pricing only.**

As mentioned, a vendor who chooses the federal option, and whose sale is also taxable provincially, may use a factor to calculate the amount of RST to collect from customers. The use of this factor is the same as multiplying the GST-excluded selling price by the applicable provincial tax rate. For example, to calculate RST on goods taxable at a provincial rate of 8%, vendors would multiply the GST-included price by 7.477%.

GST-included price (\$4.50 + GST)	\$4.82
RST calculation equivalent to	
8% of \$4.50 (7.477% x \$4.82)	<u>.36</u>
Total Billing	\$5.18

Eating establishments using GST-included pricing can use RST-included pricing for sales of prepared food products **only if every item on the menu is over \$4.28.** Vendors who wish to use tax-included pricing for RST purposes should refer to Ontario Sales Tax Guide 123, "Tax-Included Pricing".

Vendors of alcoholic beverages should refer to Ontario Sales Tax Guides 125, "Alcoholic Beverages" and 123, "Tax-Included Pricing".

ADMISSIONS

A price of admission over \$4.00, excluding the GST, to a place of amusement is taxable at 10%. If vendors are using a GST-included price the retail sales tax limit increases from \$4.00 to \$4.28 (\$4.00 + 7% GST).

A vendor who chooses the federal option of GST-included pricing for admissions to a place of amusement, and whose sale is also taxable provincially, may use a factor to calculate the amount of RST to collect from customers, if every admission is over \$4.28 (GST-included). For example, to calculate the retail sales tax on admissions taxable at a provincial rate of 10%, a vendor would multiply the GST-included price by 9.346%:

GST-included price (\$10.00 + 7% GST)	\$10.70
RST calculation equivalent to	
10% of \$10.00 (10.70 x 9.346%)	<u>1.00</u>
Total Billing	\$11.70

Vendors who wish to use tax-included pricing for RST purposes should refer to Ontario Sales Tax Guide 126, "Admissions".

FOOTWEAR

Footwear costing \$30 or less is exempt from retail sales tax regardless of the size. Footwear includes:

- shoes, sneakers and sport shoes;
- boots, overshoes, rubbers and galoshes;
- ski boots and boots with skates attached; and,
- ballet slippers.

When using a GST-included price, the RST limit increases from \$30.00 to \$32.10 (\$30.00 + 7% GST).

DISCOUNT COUPONS

Retailers, restaurateurs, manufacturers and other types of vendors distribute a variety of discount coupons to promote their products.

When a coupon is used as partial payment for a purchase, the application of retail sales tax depends on whether the coupon was issued by a retailer who redeems it or by a third party, such as a manufacturer.

Regardless of the rules for the federal GST, if a manufacturer's coupon is redeemed, retail sales tax applies to the full price (excluding the GST) before the reduction using the coupon. When a retailer's coupon is redeemed, RST is payable on the net value of the sale **after** deducting the value of the coupon.

The following examples, based on the current federal policy are intended to clarify the Retail Sales Tax Branch's position with respect to the application of the provincial tax.

Examples:

a) Manufacturers' Coupons (reimbursable)

For RST purposes, a manufacturer's discount coupon is one which:

- offers a discount on the purchase of a specific product; and,
- specifically states that the retailer **will** be reimbursed by a third party, either directly by the manufacturer or through a coupon clearing house.

When a retailer redeems a manufacturer's coupon as partial payment toward the purchase of taxable goods, RST is payable by the customer on the full price **before** deducting the value of the coupon.

For the purposes of the GST, these coupons can be issued for a GST-included amount. This federal initiative will reduce confusion at the point of sale and ensures that the coupon is deducted at the same time as is currently required for RST purposes. Therefore, a coupon which currently has a face value of \$1 may, for purposes of the GST, be increased by the manufacturer so that the total value will include GST, in this case \$1.07. This only applies if the coupon is to be used to buy a GST-taxable item (taxable goods, services or prices of admission).

GST-EXTRA PRICING

Selling Price - item A	\$ 6.00
- item B	<u>4.00</u>
Subtotal	\$10.00
RST(\$10.00x8%)	.80
GST(\$10.00x7%)	<u>.70</u>
Subtotal	\$11.50
Coupon	<u>(1.07)</u>
Total	\$10.43

GST-INCLUDED PRICING

Selling Price - item A	\$ 6.42
- item B	<u>4.28</u>
Subtotal	\$10.70
RST(\$10.70x7.477%)	<u>.80</u>
Subtotal	\$ 11.50
Coupon	<u>(1.07)</u>
Total	\$10.43

b) Retailers' Coupons (non-reimbursable)

For RST purposes, a retailer's discount coupon is one which:

- offers a discount on the purchase of a specific product at the retailer's store(s); and,
- does **not** specifically state that the retailer will be reimbursed by a third party, such as a manufacturer.

Retailers who redeem their own coupons are considered to have sold their merchandise at a reduced price. In this case, RST is payable on the net value of the sale **after** deducting the value of the coupon.

Under the revised GST rules the retailer may use these coupons to reduce the selling price, or use the same process as described for manufacturers' coupons (i.e. GST tax-included coupon).

The following examples illustrate how both the provincial RST and federal GST will be applied at the point-of-sale:

GST-EXTRA PRICING

Selling Price - item A	\$ 6.00
- item B	<u>4.00</u>
Subtotal	\$10.00
Coupon	<u>(1.00)</u>
Subtotal	\$ 9.00
RST(\$9.00x8%)	.72
GST(\$9.00x7%)	<u>.63</u>
Total	\$10.35

GST-INCLUDED PRICING

Selling Price - item A	\$ 6.42
- item B	<u>4.28</u>
Subtotal	\$10.70
Coupon	<u>(1.07)</u>
Subtotal	\$ 9.63
RST(\$9.63x7.477%)	<u>.72</u>
Total	\$10.35

ONTARIO SALES TAX GUIDES

The Retail Sales Tax Branch produces a series of guides to assist vendors and taxpayers on retail sales tax matters. These guides provide information about:

- taxable items;
- tax-free items and those who qualify for them;
- refunds and how to apply for them;
- obligations of purchasers and consumers;
- obligations of vendors.

Updated versions of guides may be obtained by contacting your local Retail Sales Tax Office.

The details presented in this bulletin are intended only as a guideline. For more information please consult the *Retail Sales Tax Act* and Regulations or contact your local office listed in the blue pages of your telephone directory.

Pour obtenir cette publication en français, veuillez communiquer avec votre bureau local de la taxe de vente au détail.